

Memorandum

To: Honorable Mayor Sokhary Chau and Members of the Lowell School Committee
From: Dr. Joel D. Boyd, Superintendent of Schools
Date: April 29, 2022
RE: **FY23 Net School Spending**

Overview

In 1993, Massachusetts overhauled education financing as part of its comprehensive education reform law. Under Chapter 70 of Massachusetts General Law, every school district in the Commonwealth is guaranteed a certain level of funding, known as a foundation budget. The mechanism which establishes the amount of funding for each district is formula-driven to account for the diverse needs of students in each district and the disparities in the capacity of different municipalities to generate revenue. In Lowell, as a gateway city with a relatively low median income and local tax base, approximately 78% of the foundation funding each fiscal year is provided by the Commonwealth and the remainder is required by law to be provided by the City. The City has the option of meeting its funding obligation (i.e. net school spending requirement) through any combination of cash which is appropriated to the school district and services which are provided to the school district but paid for by the City.

Over time, the City's contribution to LPS in the form of cash has significantly decreased while the amount of its contribution that is provided in the form of services has significantly increased, although there has been no documented increase in the quality or quantity of those services. This trend raises several questions which require further analysis to ensure that students in Lowell are receiving and continue to receive the level of resources to which they are entitled under the law.

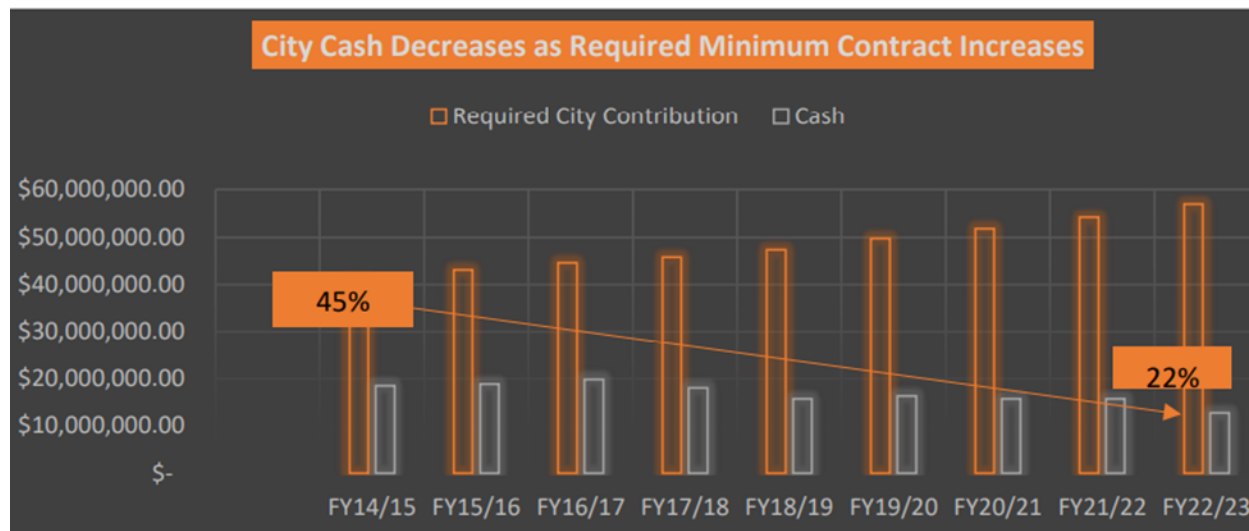
Cash Appropriation to LPS

On January 26, 2022, the Governor released his recommended budget for FY23 which included the second year of an increased investment in public schools as mandated under the Student Opportunity Act. As part of this increase, based on the Legislature's foundation budget formula, the local contribution required of the City increased by \$2,794,236 over the prior year. However, on March 25, LPS was notified by the City that the local cash investment would not increase, but rather the cash appropriation to the school district would be cut by \$3 million from \$15,736,053 in FY22 to \$12,736,053 in FY23 (see attached).

As a result, the City's cash contribution to LPS is now forecasted to reflect less than 5% of the overall FY23 budget.

The cash appropriation from the City for FY23 will be budgeted in its entirety to cover LPS' expenses for school bus transportation for grades K to 8, which are currently projected to be approximately \$13 million in FY23. Given the practical budget implications, it's important to note that in MA due to the fact that bus services are required by law to be provided across public, private and charter schools, school transportation in some municipalities is paid directly by the City to the vendor as an allowable chargeback under Chapter 70. If that type of financial arrangement existed in Lowell, the net effect would be a \$0 local cash appropriation for public education in FY23.

Based on current trends, the combination of rising transportation costs and a declining city cash appropriation will result in a net negative budgetary impact for LPS as soon as FY24.



Services Provided by Municipal Departments

The City reports that it still intends to meet the legal requirements of net school spending - despite a reduction in the cash appropriation to LPS – through the cost of services provided on behalf of LPS but paid by the City. Based on the foundation budget formula, the total City contribution to LPS is statutorily required to be \$56,906,426 in FY23, of which 78% will now be met by the City through service chargebacks.

Services are eligible for chargebacks under net school spending if there is agreement between LPS and the City that services were rendered on behalf of the school district and the cost for those services was paid by the City. Essentially, the law allows the City to operate as a service provider for the schools without any additional procurement requirements or any direct exchange of funds. The relationship - outside of the procurement and payment method - is intended to work much as it does for any other contracted vendor in that the service is provided to the schools and LPS pays for those services. In the case of services from the City, LPS pays via charges to net school spending.

The City charges a variety of services to its net school spending obligation, following the parameters outlined in a 2007 Memorandum of Agreement (MOA) between the City and LPS. In September of each year, the City submits a financial report to DESE, which documents the cost of each service provided for the prior year, and overall, how it is meeting its fiscal obligations to public education. Among the services listed within the most recent report which was submitted for FY21, there are \$2,914,218.83 in charges to LPS which require additional analysis for different reasons if those services remain within subsequent filings, including:

- Health professionals at a cost of \$1,828,429.59 for school nursing services. The question here does not relate to the services themselves, but rather the funding impact of the federal Medicaid reimbursement program. The full sum of Medicaid reimbursement, which is available from the federal government for school services, is retained entirely by the City and not dispersed to LPS. Theoretically, LPS could provide health services itself - and receive that same reimbursement - which would result in students receiving those same services at a

far lower net cost than the rate charged by the City. It would be logical for the total amount of the chargeback in this area to be adjusted to reflect the actual cost after accounting for that reimbursement.

- Management Information Systems which include technology services at a cost of \$696,878.92. These services may or may not be eligible under net school spending as LPS maintains its own robust IT department which manages nearly all technology use within schools. In order to understand the actual value of services rendered to LPS, a complete breakdown of services provided by the City's MIS department in FY23 would be required.
- Facility maintenance at a cost of \$388,910.32. Following the most recent external audit, the LPS Facilities Department raised questions related to projects and repairs in school buildings which were documented and charged to LPS yet the work was found to be either not started or incomplete. Given that this service area supports physical repairs to school buildings, these questions should be easily resolved through documented and observable evidence of the completed work products.

Based on the currently available data, it's difficult to validate the underlying math the City is using when it reports that the statutorily-required net school spending obligation will continue to be met. The City's minimum required funding for public education has increased by \$2,794,236 for the upcoming fiscal year. Yet, the City is proposing to both cut \$3,000,000 from its cash appropriation and also report a set of service chargebacks in which the eligibility of as much as \$2,914,218.83 remains in question. Consequently, despite the City's statements to the contrary, whether the City will in fact meet its overall net school spending obligation in FY23 remains questionable and warrants further scrutiny.

Messaging and Communication

While these questions and concerns remain, LPS continues to proceed under the assumption that the City is operating in good faith and the minimum required net school spending threshold will ultimately be met in some way. However, the communication of the actual accounting behind school spending within the City's budget also presents an area of concern. In its current form, the messaging from the City has been opaque, leaving open the possibility for significant confusion within the community.

The overarching positive fiscal outlook for LPS in FY23 - due to the convergence of the Student Opportunity Act and the federal ESSER grant - remains the primary formal message conveyed by the City so far. There has been no direct mention of the proposed cuts to the local cash appropriation or the specifics behind the increased costs incurred by the City which have necessitated these cuts. On its own, the budgeting message LPS has received from the City is somewhat convoluted with accounting of federal grants, state-level funding and large-scale reimbursable programs across public, charter and vocational schools all commingled into one single line discussion.

As an unintentional result, the direct cut to the cash appropriation for LPS students proposed by the City has been, in some ways, obscured in the City's formal communications to this point.

Informally, the City has advised LPS that the \$3 million cut was the result of unspecified, increased costs that are primarily concentrated within the Department of Public Works. Following that articulated rationale, the \$3 million cut to the LPS general fund has been accounted for in the FY23 LPS budget through a shift of expenditures to ESSER with a correlated reduction to the earmarked funds for facilities improvements. Since revenue in the general fund is recurring and ESSER funds

are non-recurring, to sustain the shifted investment across the ESSER grant window, \$3 million in FY23 has to be accounted for in FY24 as well, resulting in an overall reduction of \$6 million to the LPS facilities improvement line.

This reduction reflects the immediate impact on the FY23 LPS budget, however, the recurring impact on LPS classrooms may be even more significant as LPS continues to manage the inevitable fiscal cliff that will occur once ESSER funds are no longer available and as other costs continue to increase.

As we continue to partner with the City, there remains significant room to improve communication on the City's role in funding public education and how the City is meeting its fiduciary obligation to LPS students. Transparency in accounting continues to be a shared goal for both the City and LPS as fiscal stewards for our students and families.

Moving Forward

With the recent swearing-in of the new City Manager on April 28, it may be beneficial to revisit the 2007 MOA and establish an updated agreement between the City and LPS which more accurately accounts for the services that will be provided to schools in FY23. As the City and LPS engage in these negotiations, to ensure efficiency and support an expedited agreement, school districts across the Commonwealth have the option of requesting that DESE provide an impartial hearing officer to assist in resolving any outstanding concerns. Given the historic nature of some of the outstanding questions in Lowell, at some point, we may want to explore that option further.

Attachment: March 25, 2022 City Appropriation Letter

Cc: Thomas Golden, City Manager
Billie Jo Turner, Lowell Public Schools CFO
Conor Baldwin, City of Lowell CFO